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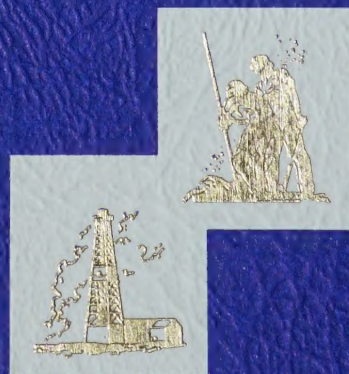
*Rayrock*

*Resources*

L I M I T E D

ANNUAL REPORT

1979







# **RAYROCK RESOURCES LIMITED**

## **DIRECTORS**

J. C. BYRNE, Toronto  
Chairman and Chief Executive Officer, Discovery Mines Limited

D. R. CROMBIE, Toronto  
President and Operations Manager, Discovery Mines Limited

H. EARL JOUDRIE, Calgary  
President and Chief Executive Officer, Voyager Petroleum Ltd.

JOHN KOSTUIK, Toronto  
Director and Consultant, Denison Mines Limited

J. J. RANKIN, Toronto  
President and Managing Director, Pominex Limited

G. T. SMITH, Toronto  
President and Chief Executive Officer, Northgate Explorations Limited

H. J. WHELAN, Toronto  
President and Chief Executive Officer, The Lummus Company Canada Limited

## **OFFICERS**

J. C. BYRNE  
Chairman of the Board and Chief Executive Officer

D. R. CROMBIE  
President and Operations Manager

W. STEUERMAN  
Secretary-Treasurer

## **SENIOR GEOLOGIST**

T. Antoniuk

## **EXECUTIVE OFFICE**

Suite 1011, 2200 Yonge Street, Toronto, Canada

## **TRANSFER AGENTS AND REGISTRARS**

CROWN TRUST COMPANY, Toronto

## **BANKERS**

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

## **AUDITORS**

COOPERS & LYBRAND, Toronto

## **SOLICITORS**

CAMPBELL, GODFREY & LEWTAS, Toronto

## **ANNUAL MEETING**

May 30, 1980, 11:00 a.m., British Columbia Room,  
Royal York Hotel, Toronto, Canada



# RAYROCK RESOURCES LIMITED

## Directors' Report to the Shareholders:

### 1979 HIGHLIGHTS

- Interests in three new mines under development.
- Participations in two new oil and gas joint ventures.
- Financial strength of Rayrock Group improved by elimination of debts of Discovery Mines and new financing for Pyx Explorations.

### MINING

During 1979 arrangements were completed for the development of three new mines in which Rayrock has interests, making this an exceptionally successful year for a company of Rayrock's size. The most important is the Pinson Gold Mine in Nevada, 26.5% owned and managed by Rayrock, which is being developed to produce 1,000 tons per day from an open pit. The capital cost, excluding interest during construction, will be some \$17 million, of which \$15,750,000 is being financed with a bank project loan. This mine is expected to provide your company with a significant source of cash flow in the United States. Production is scheduled to commence in January 1981. Rayrock increased its ownership in Pinson from 20.0% to 26.5% by participating in the buyout of one of the partners.

Discovery Mines Limited, 49% owned by Rayrock, has completed arrangements with the Noranda Group for placing into production a small, high grade gold property at Gordon Lake in the Northwest Territories. Subsequent to the year end, Noranda had completed shipping to the property all supplies and equipment required for mill construction and for completion of the mine development. It is planned to be in production by the fourth quarter of 1980. Although proven reserves are small, the project will bring a very worthwhile profit to Discovery.

Pyx Explorations Ltd., 27.4% owned by Rayrock, controls a 25% profits interest in the Norita Mine, in northwest Quebec. At this mine, a new, good grade copper-zinc orebody is being developed for production. Milling of development ore started in 1979, and by the end of 1980 most of the millfeed should be coming from the new orebody. The operator, Noranda Mines, is conducting a thorough exploration program on the Norita property and on an adjoining property where Pyx owns a 20% profits interest.

Your company's mining exploration programs are mainly in the western United States. The Cordex IV Syndicate, comprising Dome Mines Ltd., Lacana Mining Corp., and Rayrock was organized in 1979. Other exploration projects are conducted by the Cordex III Syndicate and the Pinson Mining Company partnership. Rayrock is also a participant in the Iberian Syndicate, exploring silver-lead deposits in Spain.

### OIL AND GAS

Rayrock's Ontario oil division produced 102,600 barrels of oil in 1979, and net field revenue was \$784,513. The net revenue figure would be approximately four times greater if this production could be sold for prices prevailing in the United States.



## RAYROCK RESOURCES LIMITED

We are now receiving cash income from gas production in Alberta from both the Canadian Oil and Gas Fund and a joint venture with Signalta Resources Ltd. Cash income will increase in 1980 as the Forestburg Project comes on stream at 3 million cubic feet per day. Rayrock has a 12.5% interest before payout in 39,000 acres and the gas plant at Forestburg. Five of the ten Forestburg wells had drill stem test flow rates greater than 2.2 million cubic feet per day, and the best well tested 4.5 million cubic feet per day.

Exploration and development expenditures in 1979, including land acquisition, amounted to \$869,267. The company participated in drilling 49 wells, which resulted in 19 gas wells and 1 oil well. Most of the activity was in Alberta.

A joint venture with emphasis on acreage acquisition in central and northern Alberta was organized with Viking Oil & Gas Ltd. of Edmonton. One project commenced in the fourth quarter with purchase of two parcels of land. Drilling and further acreage acquisition are anticipated for 1980.

Rayrock has also agreed to finance an 8% interest in a \$10,000,000 oil exploration project in southern Alberta which is managed by Consolidated Morrison Explorations. Principal partners in this venture, in addition to Morrison, are Signalta Resources Ltd. and Dynamar Energy Ltd.


### CORPORATE DEVELOPMENTS

A block of 930,000 shares of Rayrock owned by Ashland Oil Canada Ltd. was purchased by Discovery Mines and certain other companies. Most of that block has now been widely distributed to the market, in Canada, the United States, and Europe. Discovery Mines, through its holdings of Rayrock common and voting preferred shares, now holds 30% of the voting rights of Rayrock. Discovery has eliminated its debts and is planning an equity financing to raise \$1,000,000.

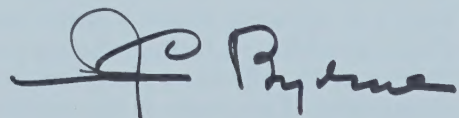
The shares of Pyx Explorations Ltd. were listed on the Vancouver Stock Exchange, and a successful underwriting netted Pyx \$540,000.

Rayrock's cash flow from operations before deducting exploration expenditures amounted to \$1,113,000. Working capital at year end was \$980,000 and the market value of investments, including shares in effectively controlled companies, was \$4,974,000.

On behalf of the Board,



President and Operations  
Manager



Chairman and Chief Executive  
Officer

Toronto, Ontario  
April 10, 1980



# RAYROCK RESOURCES LIMITED

## MINING

### PINSON JOINT VENTURE

The Pinson-Preble gold property, located near Winnemucca, Nevada, is being brought into production. Rayrock has a 26.5% interest and management of the joint venture.

Pinson is being developed as a 1,000 ton per day open pit gold mine. Drill indicated reserves total 2,000,000 tons grading 0.152 ounces gold per ton in the main deposit plus some 3,000,000 tons averaging 0.08 ounces gold per ton in other zones in the area. Engineering work, site preparation and equipment purchasing for the construction of a 1,000 tons per day carbon in pulp gold recovery mill has started. A highly qualified operating staff is being assembled. The construction schedule calls for production to start in January 1981.

The total project cost, excluding interest during construction, has been estimated at \$17,000,000. Bank project loans totalling \$15,750,000 have been arranged. At current gold prices of \$500 per ounce it is anticipated that the bank loan will be rapidly retired and substantial cash flow begin accruing to the joint venture in 1982. Very high interest rates have raised the break-even gold price. With New York prime rate of 20%, \$285 per ounce is required to pay operating costs and provide for debt servicing.

### DISCOVERY MINES LIMITED

(Rayrock 49% interest)

Discovery has a 66 2/3% direct interest and Camlaren Mines (66% owned by Discovery) a 33 1/3% interest in a 21 claim gold property on an island in Gordon Lake, 60 miles northeast of Yellowknife, N.W.T. The property has been leased to Noranda Mines Limited and Pamour Porcupine Mines Limited who are providing an estimated \$5 million to place the property into production. Discovery is to receive \$600,000 out of first cash flow pro rata with recoupment of preproduction costs by Noranda and Pamour. After cost recoupment Discovery will receive 20% and Camlaren 10% of cash flow until 50,000 tons have been mined and thereafter 26.7% to Discovery and 13.3% to Camlaren.

The property is developed with a shaft to a depth of 838 feet and lateral workings on the 200, 350, and 800 foot levels. In 1962-63 Discovery mined and milled 13,000 tons averaging 1.13 ounces gold per ton from the upper levels. Estimated reserves to a depth of 1,000 feet, diluted to a minimum five foot mining width, are 56,000 tons averaging 0.62 ounces gold per ton, including 5,696 tons averaging 0.42 ounces gold per ton on the surface stockpile.

Mining equipment and a modular cyanide mill, with a capacity of 150 tons per day, are being rented to the project by the contractors, Mining Corporation of Canada. Equipment and supplies are being transported to the property over the winter ice road. Preparations are underway to dewater the mine workings and deepen the shaft to 1,050 feet. Production is scheduled to commence by the fourth quarter of 1980.

### NORITA QUEBEC MINES LIMITED

(Rayrock 29.5%)

The Norita mine, located in the Matagami district, is a copper-zinc-silver producer that has been in operation since 1976. The mine is operated by a division of Noranda Mines Limited. During 1979 a total of 358,698 tons of ore with an average grade of 4.56% zinc and 1.42% copper were mined and milled.

Noranda is continuing the exploration and development of the A Zone, the new deep orebody. Drill indicated reserves for this zone are 2,989,000 tons grading 2.85% zinc and 2.46% copper plus some silver. There is a possibility for extension to the lower east but widths are narrow and only minor additional tonnage is expected. Total proven and indicated reserves for the mine at year end are reported by Noranda to be 3,500,000 tons grading 3.57% zinc, 2.16% copper, 0.8 oz. silver and 0.02 oz. gold.

The upper part of the A Zone is being prepared for mining by sublevel from ramps driven down from the 7th level which is at about 1,500 feet below surface. Shaft deepening to a proposed total depth of 2,400 feet has commenced.



## RAYROCK RESOURCES LIMITED

Plans for 1980 include increasing the mining rate to about 1,250 tons per day. Mining of the copper rich A Zone should start in 1980 which should significantly improve the profitability of the mine.

Norita Quebec has a 25% net profits interest in the Norita mine plus a 25¢ per ton royalty on the first 2 million tons mined. Rayrock effectively controls Norita Quebec through a 29.5% combined direct and indirect equity interest.

### CORDEX III SYNDICATE

The Cordex III Syndicate was financed equally by Dome Mines, Lacana Mining Corporation, McIntyre Mines and Rayrock, each with a 22% net interest. Exploration in 1979 was concentrated in Nevada and border areas of adjacent states. Primary objectives were gold, silver and uranium deposits with potential for open pit mining.

Additional drilling was carried out at the Bretz uranium prospect in the McDermott Caldera at the Oregon border. Uranium mineralization is found in a flat-lying body at a depth of about 600 feet below surface. An area in the western part of the zone, with an average thickness of 24.4 feet, is estimated to contain 1,000,000 tons grading 2.0 lbs.  $U_3O_8$  per ton. Adjoining fringe areas are estimated to contain 1,700,000 tons grading 1.0 lbs.  $U_3O_8$  per ton with an average thickness of 10 feet. Further work has been postponed pending results of a feasibility study by Placer Development Corporation on their adjoining Aurora property, where they have reported drill indicated re-

serves of 13 million tons averaging 1.0 lb.  $U_3O_8$  per ton amenable to open pit mining.

Other projects in 1979-80 included exploration drilling on a copper-gold prospect and a disseminated gold occurrence in northwestern Arizona, a molybdenum prospect and a uranium prospect in Nevada, and a uranium prospect in California.

Rayrock, Dome Mines and Lacana Mining Corporation have agreed to share equally the financing of the Cordex IV Syndicate. Exploration will continue to concentrate on gold and silver in Nevada under the management of Mr. J. S. Livermore based in Reno, Nevada.

### IBERIAN SYNDICATE

Rayrock has a 21.25% net interest in this joint venture which is exploring for high grade silver-lead deposits in the Penarroya District of Spain. Geological studies, geochemical surveys and geophysical surveys have indicated possible extensions to known deposits and other favourable structures. Six selected targets were diamond drilled in 1979.

Narrow intersections of silver-lead-zinc mineralization were obtained in the Santa Leocadia Mine area. Minor underground workings are known from Roman times and from the late 1800's. Geochemistry and geophysics indicated probable extensions of structures to the south of old workings. Two holes were drilled on one section, the second about 100 feet below the first. Three strong structures were intersected. The best intersection was 2.0 feet assaying 2.76% lead, 0.40% zinc and 5.31 oz. per ton silver. Further drilling is proposed for 1980.



# RAYROCK RESOURCES LIMITED

## OIL AND GAS

### RODNEY AREA AND GOBLES FIELDS

Operations were normal at Rayrock's three wholly owned waterflood oilfields in southwest Ontario. In 1979 there was only one oil price increase of \$1.00 per barrel and consequently there was a small decline in net revenue. Remaining recoverable reserves at January 1, 1980 are estimated at 737,000 barrels.

The table below gives the significant operating information for 1978 and 1979:

	1978	1979	% Change
Sales (Bbls.) . . . . .	111,362	102,600	- 7.9
Sales (gross) . . . . .	\$1,432,453	\$1,433,579	0
Royalties and			
Transportation	\$ 239,675	\$ 235,669	- 1.6
Production expenses	\$ 390,400	\$ 413,397	+ 5.7
Net Field Revenue	\$ 802,378	\$ 784,513	- 2.2

### CANADIAN OIL & GAS FUND (1975) JOINT VENTURE

This joint venture owns interests in several producing shallow gas properties in southeast Alberta. During the year production was shut in for the maximum periods allowed under the sales contracts.

Rayrock's net interest in the Joint Venture is 28.5% and its share of proven and probable reserves estimated to be 2.36 BCF. Net income to Rayrock in 1979 amounted to \$92,280.

### SIGNALTA JOINT VENTURE

Rayrock finances direct participations in natural gas exploration and development through interests in projects managed by Signalta Resources Ltd. of Calgary. In 1979 one new project was started along with continuing work on earlier programs.

#### 1977 Program

Rayrock has a 12% before payout net interest in 7 shut-in gas wells and effectively controls an additional 3.0% net interest owned by Norita Quebec Mines Limited. Net gas reserves attributable to Rayrock total 788 MMCF proven and 499 MMCF probable.

At the Warwick well, where there are gross proven reserves of 4 BCF, flow lines are being constructed and the well should be on stream in early 1980. It is expected that at least one more well will be on stream in late 1980.

#### Birch (1978) Project

A 12.5% net interest is held in a gas well on this 640 acre property in central Alberta. Rayrock's share of reserves is 0.62 BCF proven and 0.08 BCF probable. The well was put on stream in January 1979 and net revenue to Rayrock during the year totalled \$49,733.

#### Forestburg Project

Rayrock has been financing 12.5% of the cost of a series of farm-ins with options on some 39,000 acres in the Forestburg area of central Alberta.

The program started in 1978 when 8 wells were drilled with 4 completed as potential gas wells. Rayrock earned net interests of 12.5% before payout and 5.3125% after payout. Four option wells were drilled in early 1979 with 2 completed as potential gas wells.

Additional farm-ins were negotiated in 1979 on which Rayrock earns net interests of 10.3126% before payout and 5.1563% after payout. Of 5 wells drilled 2 were completed as potential gas wells. A further 2 wells drilled in early 1980 were completed to make a total of 10 gas wells in the field to date.

TransCanada Pipelines Ltd. has established an initial reserve estimate of 24 BCF and assigned a gas purchase contract to the project. A gas plant with a capacity of 4.5 MMCFD is being constructed by the joint venture. Production from the field is expected to be on stream in April 1980 at a rate of 3 MMCFD.

#### Wilkins Project

Rayrock is paying 21.25% of the cost of a farm-in with options that could earn interests in 9,600 acres in an area of potential shallow natural gas in east central Alberta. The commitment is for 3 wells to be drilled. One well was drilled in 1979. The well lost circulation and could not be tested but production casing was installed.



## RAY ROCK RESOURCES LIMITED

### RENAISSANCE JOINT VENTURE

In 1978 and 1979 Rayrock has participated in oil and gas exploration programs managed by Renaissance Resources Ltd. of Calgary. This has given your company exposure to a wide variety of targets in many areas of Alberta and British Columbia.

#### 1978 Joint Venture

Rayrock financed a 6.584% net interest and earned varying interests in 72,144 gross acres of land, 22 potential gas wells and one oil well. Rayrock's share of natural gas reserves (before royalties) is estimated at 602 MMCF proven and 57 MMCF probable plus liquid equivalents. One well was placed on stream in December 1979.

Two wells were drilled in 1979. One was a dry hole. The second, drilled late in the year on pooled land, flowed 3.6 MMCFD on a drill stem test and was completed as a potential gas well.

#### 1979 Joint Venture

Rayrock has financed a 5.7176% net interest in the 1979 program at a cost of \$250,000. The joint venture participated in drilling 35 wells which resulted in 13 gas wells, 1 oil well and 21 dry holes. Most of the drilling was in southern Alberta although several wells were drilled in northern Alberta and northeastern British Columbia. An additional 10 wells are scheduled to be drilled in early 1980.

Preliminary evaluations at year end indicate that Rayrock's direct share (before royalties) of reserves to date amounts to 393 MMCF gas plus liquid equivalents and 0.40 MSTB oil. The oil well was in production in October 1979 and one gas well is being placed on stream in January 1980. Five gas wells have sales contracts and are scheduled to be in production by November 1980.

### VIKING-RAYROCK LANDBANK

Rayrock has entered into an agreement with Viking Oil & Gas Ltd., a private Edmonton based company, to finance the acquisition of petroleum and natural gas rights in Alberta and British Columbia. The initial commitment is for a \$1,000,000 expenditure by Rayrock and associated companies. Acreage will be acquired

through bidding at provincial land sales, with partners when it is planned to develop the acreage ourselves and in other cases for subsequent farm-out. Rayrock is financing 64.9% to earn a 51.9% interest.

At year end the joint venture had participated with a partner in the acquisition of two parcels of land totalling 8,320 gross acres. Rayrock's interest is a net 2,147.3 acres. Drilling is planned for early 1980.

### SAWTOOTH JOINT VENTURE

Rayrock has agreed to participate in a two year program exploring for oil in southern Alberta. The joint venture was formed in late 1979 by Consolidated Morrison Explorations Ltd. of Calgary who will manage the program which will have a total budget of \$10,000,000. Rayrock will contribute 8.0% to earn a 6.0% net interest.

### PYX EXPLORATIONS LTD.

Rayrock owns 27.4% of the issued shares of Pyx and effectively controls the company. Pyx participates along with Rayrock in three of the joint ventures described above.

Pyx financed a 3.4305% net interest in the Renaissance 1979 Joint Venture. Pyx's share of reserves (before royalties) at year end are 235.8 MMCF gas and 0.24 MSTB oil.

Pyx is paying 15% to earn a 12% net interest in the Viking-Rayrock Landbank and 2% to earn a 1.5% net interest in the Sawtooth Joint Venture.

### UNITED STATES

Rayrock has a 5% interest in approximately 16,000 acres of leases covering a number of prospects in northeast Montana. Acreage at one prospect has been farmed out with Rayrock retaining a 0.20% overriding royalty convertible to a 2.612% working interest after payout. A 10,000 foot test is being drilled on adjoining lands. Two drill locations are available on the company lands should the well be successful.

The second well of a two well wildcat project in the Palo Duro Basin in Texas, in which Rayrock was paying 5% of the cost, was drilled in 1979. Both wells were dry holes.



# RAYROCK RESOURCES LIMITED

## Consolidated Balance Sheet

### ASSETS

	1979 \$	1978 \$
<b>Current Assets</b>		
Cash .....	185,330	216,367
Short-term deposits .....	775,000	1,250,000
Accounts receivable and prepaid expenses .....	170,874	235,441
Income taxes recoverable .....	—	19,000
	<u>1,131,204</u>	<u>1,720,808</u>
<b>Investments and advances (notes 1(f) and 2) .....</b>	<b>2,391,417</b>	<b>2,619,758</b>
<b>Oil and gas properties (note 1(e))</b>		
Petroleum and natural gas leases — at cost, less accumulated depletion (1979 — \$1,337,847; 1978 — \$1,174,094) .....	2,347,764	1,947,543
Well equipment — at cost, less accumulated depreciation (1979 — \$203,606; 1978 — \$195,379) .....	35,336	28,889
Interest in Ranchmen's 1977 Partnership .....	48,374	49,585
	<u>2,431,474</u>	<u>2,026,017</u>
<b>Mining properties</b>		
Interest in Pinson Joint Venture (note 3) .....	676,318	—
Interest in net assets of the Icon Sullivan Joint Venture — at estimated realizable value .....	51,539	50,334
Mine buildings and equipment — at cost, less accumulated depreciation (1979 — \$66,533; 1978 — \$49,247) (note 1(e)) .....	69,039	86,299
	<u>796,896</u>	<u>136,633</u>
<b>Other assets</b>		
Head office furniture — at cost, less accumulated depreciation (1979 — \$21,924; 1978 — \$20,893) (note 1(e)) .....	8,763	5,502
Leasehold rights — at cost, less accumulated amortization (1979 — \$13,878; 1978 — \$9,252) .....	1,542	6,168
	<u>10,305</u>	<u>11,670</u>
	<u><u>6,761,296</u></u>	<u><u>6,514,886</u></u>



s at December 31, 1979

## LIABILITIES

	1979 \$	1978 \$
<b>Current liabilities</b>		
Bank indebtedness .....	—	21,028
Accounts payable and accrued liabilities .....	148,289	134,207
Income taxes payable .....	3,336	—
	<u>151,625</u>	<u>155,235</u>
<b>Deferred income taxes (note 1(c)) .....</b>	<b>722,000</b>	<b>627,000</b>
<b>Deferred revenue .....</b>	<b>7,913</b>	<b>—</b>
	<u>881,538</u>	<u>782,235</u>

## SHAREHOLDERS' EQUITY

<b>Capital stock (note 4)</b>		
Authorized —		
2,000,000 preference shares of \$1 par value		
6,000,000 common shares of no par value		
Issued and fully paid —		
100,000 preference shares .....	100,000	—
4,510,000 common shares .....	4,506,200	4,506,200
<b>Contributed surplus (note 4) .....</b>	<b>632,431</b>	<b>636,212</b>
<b>Retained earnings .....</b>	<b>731,382</b>	<b>643,933</b>
	<u>5,970,013</u>	<u>5,786,345</u>
<b>Purchase of capital stock (note 4) .....</b>	<b>90,255</b>	<b>53,694</b>
	<u>5,879,758</u>	<u>5,732,651</u>
<b>SIGNED ON BEHALF OF THE BOARD</b>		
J. C. BYRNE, Director		
H. J. WHELAN, Director		
	<u>6,761,296</u>	<u>6,514,886</u>



# RAYROCK RESOURCES LIMITED

## Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1979

	1979 \$	1978 \$
<b>Retained earnings — beginning of year</b>		
As previously reported .....	637,457	634,642
Share of prior period adjustment of significantly influenced company (note 2) .....	6,476	6,476
As restated .....	643,933	641,118
Net earnings for the year .....	102,142	2,815
Share of prospectus expenses of significantly influenced company .....	(14,693)	—
<b>Retained earnings — end of year .....</b>	<b>731,382</b>	<b>643,933</b>

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Rayrock Resources Limited as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
March 14, 1980

COOPERS & LYBRAND  
Chartered Accountants



# RAYROCK RESOURCES LIMITED

## Consolidated Statement of Earnings

For the Year Ended December 31, 1979

	1979 \$	1978 \$
<b>Revenue</b>		
Revenue from petroleum operations . . . . .	1,734,331	1,758,612
Investment income . . . . .	441,680	261,654
	<u>2,176,011</u>	<u>2,020,266</u>
<b>Expenses</b>		
Cost of petroleum production . . . . .	886,213	870,925
Administrative and general . . . . .	193,335	152,068
Depreciation, amortization and depletion . . . . .	197,142	230,571
Mining claims written off . . . . .	—	25,002
	<u>1,276,690</u>	<u>1,278,566</u>
<b>Earnings before the undernoted items</b> . . . . .	899,321	741,700
<b>Exploration expenditures (note 1(d))</b> . . . . .	650,111	443,074
	<u>249,210</u>	<u>298,626</u>
<b>Provision for (recovery of) income taxes (note 1(c))</b>		
Current . . . . .	22,336	(19,612)
Deferred . . . . .	95,000	78,000
	<u>117,336</u>	<u>58,388</u>
	131,874	240,238
<b>Share of (loss) earnings determined by the equity method (note 2)</b> . . . . .	(29,732)	7,317
<b>Oil interest (north-east Montana project) written off</b> . . . . .	—	(169,558)
<b>Earnings before extraordinary items</b> . . . . .	<u>102,142</u>	<u>77,997</u>
<b>Extraordinary items</b> . . . . .	—	(75,182)
<b>Net earnings for the year</b> . . . . .	<u>102,142</u>	<u>2,815</u>
<b>Earnings per share before extraordinary items</b> . . . . .	<u>\$0.02</u>	<u>\$0.02</u>
<b>Earnings per share for the year</b> . . . . .	<u>\$0.02</u>	<u>\$0.00</u>



# RAYROCK RESOURCES LIMITED

## Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1979

	1979 \$	1978 \$
<b>Source of working capital</b>		
Current operations —		
Earnings for the year before extraordinary items . . . . .	102,142	77,997
Items which did not require the use of working capital —		
Deferred income taxes . . . . .	95,000	78,000
Share of loss (earnings) on equity method . . . . .	29,732	(7,317)
Depreciation, amortization and depletion . . . . .	197,142	230,571
Gain on sale of investments . . . . .	(252,042)	(82,026)
Mining claims written off . . . . .	—	25,002
Oil interests written off . . . . .	290,620	193,767
Gain on sale of oil interests . . . . .	—	(17,726)
	<u>462,594</u>	<u>498,268</u>
Proceeds on sale of investments . . . . .	893,242	569,364
Proceeds on sale of equipment . . . . .	805	4,249
Proceeds on issue of capital stock . . . . .	108,260	95,463
Proceeds on sale of oil interests . . . . .	—	345,706
Deferred revenue received . . . . .	7,913	—
	<u>1,472,814</u>	<u>1,513,050</u>
<b>Use of working capital</b>		
Additions to mining properties . . . . .	676,318	—
Purchase of equipment . . . . .	6,257	10,959
Additions to oil and gas properties . . . . .	869,267	676,689
Purchase of capital stock . . . . .	48,602	32,064
Investments and advances . . . . .	453,464	635,990
Advances to officers and employees — net . . . . .	4,900	13,600
	<u>2,058,808</u>	<u>1,369,302</u>
<b>Increase (decrease) in working capital . . . . .</b>	<b>(585,994)</b>	<b>143,748</b>
<b>Working capital — beginning of year . . . . .</b>	<b>1,565,573</b>	<b>1,421,825</b>
<b>Working capital — end of year . . . . .</b>	<b>979,579</b>	<b>1,565,573</b>



# RAYROCK RESOURCES LIMITED

## Notes to Consolidated Financial Statements

For the Year Ended December 31, 1979

### 1. Accounting policies

The accounting policies of the company are in accordance with generally accepted accounting principles and the significant policies are outlined below:

#### (a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Rayrock Mines, Inc.

#### (b) Translation of accounts of foreign subsidiary company

The accounts of the wholly-owned U.S. subsidiary are translated into Canadian dollars at the following rates:

Current assets and liabilities at December 31 exchange rates;

All other assets and liabilities at the exchange rates prevailing when the assets were acquired or the liabilities assumed.

#### (c) Income taxes

The company follows the tax allocation method of accounting whereby the provision for income taxes is based upon income reported in the accounts.

#### (d) Exploration expenditures

Costs incurred in exploring for minerals are charged to expense in the year incurred.

Costs incurred in exploring for oil and gas, including participations in joint ventures, are capitalized until completion of the particular exploration programme, at which time the costs of dry holes are written off. Acquisition costs of oil and gas properties and the costs of drilling and equipping successful wells are capitalized.

#### (e) Depreciation and depletion

Depreciation is provided on a declining balance basis at rates sufficient to amortize the cost of the assets over their estimated useful lives. The rates in use are as follows:

Head office furniture . . . . .	20%
Oil well equipment . . . . .	4% - 30%
Mine buildings and equipment	20%

Depletion of oil and gas properties and drilling costs is determined by the unit-of-production method based on proven reserves.

#### (f) Investments

The investments in shares of Discovery Mines Limited and Pyx Explorations Ltd., significantly influenced companies, are carried at cost adjusted by the company's share of the earnings or losses since significant influence was acquired.

Other long-term investments are written down when there is evidence that their inherent worth has declined below their carried value.



# RAYROCK RESOURCES LIMITED

## 2. Investments and advances

(a) This item comprises:

	1979 \$	1978 \$
Shares —		
Investment in shares of Discovery Mines Limited (49.1% owned) and Pyx Explorations Ltd. (27.4% owned) accounted for by the equity method (quoted market value 1979 — \$3,861,834; 1978 — \$1,868,398) (note 2(c)) . . . . .	1,370,819	1,200,834
Other quoted shares — at cost (quoted market value 1979 — \$1,112,563; 1978 — \$869,853) . . . . .	580,770	1,025,923
Other shares (unlisted or escrowed) and debentures — at cost, less amounts written off . . . . .	120,428	99,627
	<u>2,072,017</u>	<u>2,326,384</u>
Advances —		
Discovery Mines Limited . . . . .	215,200	194,074
House purchase loans due from officers and employees . . . . .	127,000	108,800
Less: Current portion (included in accounts receivable) . . . . .	(22,800)	(9,500)
	<u>319,400</u>	<u>293,374</u>
	<u>2,391,417</u>	<u>2,619,758</u>

(b) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotation.

(c) The company's interest in Discovery Mines Limited, in which it has significant influence, is accounted for by the equity method after reducing the earnings included therein as a result of Discovery's investment in shares of Rayrock.

## 3. Pinson Joint Venture

The company holds directly and indirectly a 26.5% interest in the Pinson Joint Venture which is preparing an open pit gold mine in Nevada for production. Expenditure on this venture prior to December 31, 1978, has been written off in prior years.

## 4. Capital stock and contributed surplus

(a) During the year the company increased its authorized capital by the addition of 1,000,000 common shares of no par value and the creation of 2,000,000 preference shares of \$1.00 par value. These preference shares were designated as 6% cumulative redeemable voting shares series "A", each share entitling its holder to six votes at any meeting of shareholders. 100,000 preference shares were sold by way of private placement for \$100,000 cash.

(b) During the year the company purchased 24,000 of its own shares at a cost of \$48,602 (1978 — 19,100 shares for \$32,064). The company also disposed of 9,000 of its own shares (for the exercise of employee incentive stock options) for proceeds of \$8,260 (1978 — \$41,100) which was below its original cost by \$3,781. The deficiency was charged to contributed surplus.

(c) Incentive stock options for 66,000 shares were outstanding at December 31, 1979, exercisable at a price of \$0.94 to \$1.23 per share. The options have various expiry dates extending to December 31, 1983. During the year employees exercised options for 9,000 shares for which the company issued purchased shares (note 4(b) above). Subsequent to the year end, options for a further 49,000 shares were exercised.

## **RAYROCK RESOURCES LIMITED**

### **5. Remuneration to directors and senior officers**

The company pays all the remuneration of directors and senior officers, as defined in the Business Corporations Act (Ontario) including the five highest paid employees, of certain associated companies and is reimbursed by these companies for their proportionate share thereof. The total of such direct remuneration received by these directors, officers and employees in the year ended December 31, 1979 was \$196,063 (1978 — \$193,927).

### **6. Income taxes**

The wholly-owned U.S. subsidiary has substantial loss carry-forwards for U.S. income tax purposes which expire in varying amounts over the next several years.

### **7. Contingent liabilities**

The company is one of the defendants in a \$2,000,000 lawsuit which was commenced in the Superior Court of Quebec by certain Cree Indian bands in northwest Quebec relating to an alleged environmental problem, arising out of a joint venture operation in which the company has a 23.75% interest. The other defendants are Kerr Addison Mines Limited, Newmont Exploration of Canada Limited and Gunnex Limited. In the opinion of legal counsel for the company, it is not possible to predict the outcome of this action.









